

## Message Text

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S E C R E T OECD PARIS 17130

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E. O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: IEA: GOVERNING BOARD MEETING JUNE 30-JULY 2

EYES ONLY FOR THE SECRETARY FROM ENDERS

1. IN TOUGH MEETING, IEA FIRST RECOILED AT ALTERNATE SOURCES DECISIONS, THEN MANAGED TO MAKE SOME PROGRESS TOWARDS THEM: (A) BY NARROWING OPTIONS ON MINIMUM SAFEGUARD PRICE (MSP) SYSTEM; AND (B) BY STRUCTURING IN DETAIL GLOBAL PACKAGE INCLUDING R&D, CONSERVATION, MSP, FOR DECISION DECEMBER 01. JAPAN, ITALY, SWEDEN EXPRESSED STRONG RESERVATION ON MSP, BUT

ACCEPTED PACKAGE APPROACH. ALL OTHERS SUPPORTED MSP EITHER FOR REASONS OF ECONOMIC INTEREST (BRITAIN, CANADA, NORWAY, NETHERLANDS), OR BECAUSE OF FELT NEED TO HAVE A SERIOUS ALTERNATIVE SOURCES POLICY AT TIME WHEN OPEC HAS FREE HAND TO RAISE OIL PRICES (GERMANY).

2. ON MSP LEVELS, BRITISH, NORWEGIANS AND DANES CAME IN AT \$7 TO 9 CIF, U.S. AT \$6 TO 8, AND GERMANY \$5 TO 6. HOWEVER, GERMANS TOLD ME PRIVATELY THAT WHEN WE MAKE THE FINAL DEAL THEY CAN GO UP A DOLLAR OR MORE. LEVEL OF PROTECTION APPEARS LESS SENSITIVE THAN ORIGINALLY BELIEVED.

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3. IEA FORMALLY CONFIRMED AND MADE PUBLIC ITS POSITION ON RELAUNCHING THE DIALOGUE, WHICH IN ALL OPERATIVE RESPECTS IS IDENTICAL WITH OURS.

4. COMMENT: RESULT OF MEETING IS TO PUT U.S. DOMESTIC AND IEA TIMETABLES FOR MSP IN PHASE, SINCE WE WILL BE READY TO DEAL WITH THIS ISSUE ONLY AFTER THE RESULTS OF THE OIL DECONTROL FIGHT ARE KNOWN.

I CANNOT FOR THE PRESENT PREDICT WHETHER OR NOT WE WILL BE ABLE TO BRING OFF A SERIOUS IEA ALTERNATIVE SOURCES POLICY. THERE ARE MAJOR OBSTACLES: STRONG POLITICAL RESISTANCE IN JAPAN AND ITALY, THE LOSS OF U.S. ENERGY CREDIBILITY AS A RESULT OF THE DEADLOCK WITH CONGRESS (WHICH HAS, IN PARTICULAR, INTENSIFIED THE JAPANESE FOOT-DRAGGING ON THE MSP), THE LOSS OF THE LEVERAGE OF THE PRODUCER/CONSUMER DIALOGUE AS HOPES FOR OIL TALKS WITH OPEC DIM AND THE U.S. MOVES INTO THE LEAD IN NORTH/SOUTH DIPLOMACY. WE DO HAVE SOME BARGAINING POWER: A WIDELY FELT AND GROWING DESIRE TO ARM AGAINST OPEC, THE CONSEQUENT NEED FOR SOLIDARITY, AN UNDERLYING ANXIETY THAT THE U.S. WILL GO BILATERAL.

MY STRATEGY IS TO TRY TO MANEUVER THE IEA INTO A STRAIGHT UP OR DOWN VOTE ON ALL THE SUBSTANTIVE ISSUES BY YEAR-END, IN THE HOPE THE JAPANESE AND ITALIANS WON'T HAVE THE GUTS TO BREAK RANKS. IF OPEC IS BLOODY-MINDED AND PUTS THE PRICE UP A LOT IN SEPTEMBER, THIS APPROACH HAS A FAIR CHANCE OF SUCCEEDING. BUT TO MAKE IT WORK WE HAVE TO BE SEEN TO BE READY TO BREAK OUT OF ALL NEW IEA COMMITMENTS AND GO IT ALONE. I AM PREPARED TO TAKE THAT POSITION BECAUSE IEA WILL BE A PAPER ORGANIZATION UNLESS IT DOES MAKE PROGRESS IN THESE FIELDS; IT WILL BE SO PERCEIVED (THAT IS ALREADY A DANGER, AND FAILURE TO MEET OUR JULY 01 DEADLINE FOR ALTERNATIVE SOURCES DOESN'T HELP), AND THUS OF LESS UTILITY TO US THAN HERETOFORE.

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